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April 22, 2004

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, 2<sup>nd</sup> Floor  
Boston, Massachusetts 02110

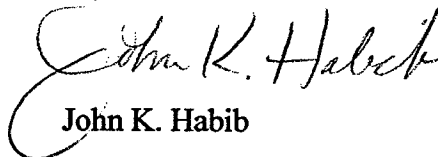
Re: Southern Union Company, D.T.E. 04-36

Dear Ms. Cottrell:

Enclosed please find the responses of Southern Union Company ("Southern Union" or the "Company") to each of the Department of Telecommunications and Energy's First and Second Set of Information Requests in the above-referenced proceeding, with the exception of DTE-1-11. The Company will submit its response to information request DTE 1-11 as soon as it is completed.

Thank you for your attention to this matter.

Sincerely,



John K. Habib

Enclosures

cc: Elizabeth Cellucci, Hearing Officer  
Kevin Brannelly, Director, Rates and Revenues  
Paul E. Osborne, Assistant Director of Rates and Revenues  
Glenn Shippee, Rates and Revenues  
Jim Powell, Rates and Revenues  
Rebecca Hanson, Assistant General Counsel  
Richard Marshall

Information Request DTE 1-1

Refer to the prefiled testimony of Richard Marshall at 3, and Southern Union Company, D.T.E. 03-64, at 14-15 (2003). The Company's petition seeks approval, in relevant part, of a three-to-five year revolving credit agreement, and relies on the unused borrowing capacity associated with the \$400 million securities issuance approved in D.T.E. 03-64, which provided for preferred securities and/or unsecured senior notes with maturities ranging from five to 30 years. Given the shorter maturities sought in this proceeding versus those approved in D.T.E. 03-64, would it be necessary for the Company to seek an amendment or comparable mechanism in order to enter into the proposed three-to-five year revolving credit arrangement?

Response

The Company does not require an amendment to the Department's previous approval for the issuance of long-term debt. Under the Department's rulings, "long-term" refers to periods of more than one year after the date of issuance. G.L. c. 164, s. 14. See, e.g., D.T.E. 03-46, at 4, fn.3. Therefore, whether the debt has a term of three-to-five years or a term ranging from five to 30 years, it will still qualify as long-term debt. The Department's Order in D.T.E. 03-64 stated that "the issuance and distribution by Southern Union Company, in conformity with all the provisions of law relating thereto, of up to \$400,000,000 principal amount of long-term debt and preferred securities is approved and authorized. Because the revolving credit agreement qualifies under the Department's standard as "long-term debt," the Department's approval in D.T.E. 03-64 covers indebtedness incurred through the revolving credit agreement.

However, in case the Department found it necessary to approve the \$400 million agreement in its entirety in this docket, the Company based the net plant test calculation on the issuance of \$400 million in debt. Therefore, the record would support a decision by the Department to approve the agreement in its entirety in this docket.

Information Request DTE 1-2

Refer to the Marshall testimony at 3. Please provide the range of anticipated interest rates for the proposed \$230 million revolving credit agreement.

Response

Based on the Company's current credit ratings, the credit spread over LIBOR is anticipated to be 0.75 percent. LIBOR-based borrowings are expected to be available for a period of 30, 60, 90 and 180 days. Based on current LIBOR rates, and assuming LIBOR rates increase by no more than 1 percent on average in each of the five years covered by the revolving credit agreement, interest rates would range between approximately 1.85 and 7.00 percent.

Information Request DTE 1-3

Refer to the Marshall testimony at 4. Please explain how the Company has been, and will continue to, finance its operations given that the \$150 million revolving credit facility matured on April 1, 2004 and that the \$225 million credit facility will mature on May 29, 2004.

Response

As indicated by the question, the Company currently has one revolving credit facility in place, which is due to expire on May 29, 2004. As of April 22, 2004, the Company had no borrowings outstanding under this credit facility and the Company does not anticipate the need to borrow under this agreement prior to its expiration on May 29, 2004. However, the Company will require funds to finance operations by the end of May 2004. Therefore, the Company is anticipating that the new agreement will have received Department approval and be in place by that time.

Information Request DTE 1-4

Refer to the Marshall testimony at 5. Please provide the average monthly 30-day, 60-day, 90-day, and 180-day London Interbank Offering Rates for the period January 2003 through March 2004.

Response

	<u>30-Day</u>	<u>60-Day</u>	<u>90-Day</u>	<u>180-Day</u>
January, 2003	1.36%	1.36%	1.37%	1.37%
February, 2003	1.34%	1.34%	1.34%	1.34%
March, 2003	1.30%	1.29%	1.34%	1.26%
April, 2003	1.31%	1.31%	1.30%	1.28%
May, 2003	1.31%	1.29%	1.28%	1.23%
June, 2003	1.16%	1.14%	1.12%	1.08%
July, 2003	1.11%	1.10%	1.11%	1.12%
August, 2003	1.11%	1.12%	1.13%	1.20%
September, 2003	1.12%	1.13%	1.14%	1.19%
October, 2003	1.12%	1.13%	1.16%	1.20%
November, 2003	1.12%	1.17%	1.17%	1.24%
December, 2003	1.15%	1.16%	1.17%	1.24%
January, 2004	1.10%	1.12%	1.13%	1.19%
February, 2004	1.10%	1.11%	1.12%	1.19%
March, 2004	1.10%	1.10%	1.11%	1.16%

Information Request DTE 1-5

Refer to the Marshall testimony at 5. Please explain how the Company's senior secured long-term debt ratings by Standard & Poor's and Moody's Investor Service will be used to derive the credit spread used to determine the interest rate.

Response

The Credit Spread will be determined in accordance with the pricing grid listed below, which is based on the rating of the Company's unsecured, non-credit enhanced senior debt as specified by Standard & Poor's Ratings Group and Moody's Investor Service, Inc. In the event that the ratings of the Company's senior debt fall within different ratings categories, the Credit Spread will be based on the higher of these ratings if there is only one category difference between the ratings. If there is a difference of two or more categories between the ratings, the Credit Spread will be based on the rating category that is one tier below the higher of the two category ratings then in effect.

<u>Credit Rating</u>	<u>Credit Spread (bps)</u>
A- and A3	50.0
BBB+ or Baa1	62.5
BBB or Baa2	75.0
BBB- or Baa3	100.0
BB+ or Ba1	175.0

Information Request DTE 1-6

Refer to the Marshall testimony at 5. Please provide the anticipated credit spread over the London Interbank Offering Rates.

Response

Please see the response to Information Request DTE 1-5.

Information Request DTE 1-7

Refer to the Marshall testimony at 5. Please provide the anticipated period of time expected between the Department's decision in this proceeding and the closing of the \$400 million revolving credit arrangement.

Response

The Company anticipates closing the \$400 million revolving credit facility within 10 to 14 days following the Department's decision in this proceeding.



Information Request DTE 1-8

Refer to the Marshall testimony at 5-6. Please provide a copy of the Pennsylvania Public Utilities Commission's approval of the \$400 million revolving credit agreement.

Response

The testimony in Exhibit SU-1, at 5-6, stating that the Company had obtained the approval of the \$400 million revolving credit agreement from the Pennsylvania Public Utilities Commission is incorrect. The testimony should have stated that the Company's regulatory counsel in Pennsylvania has determined that approval is not required in Pennsylvania because the loans contemplated under the three-to-five year revolving credit agreement will have a date of maturity that is for a period of no greater than 180 days (or less than one year). Also, the maximum borrowing and repayment period for loans pursuant to the revolving credit agreement will be for a period of six months.

Information Request DTE 1-9

Refer to the Marshall testimony at 6. Please provide the monthly average stock price for the Company for the period January, 2003 through March, 2004.

Response

	<u>Monthly Average Stock Price</u>
January, 2003	\$15.24
February, 2003	\$12.89
March, 2003	\$12.29
April, 2003	\$12.54
May, 2003	\$13.03
June, 2003	\$15.84
July, 2003	\$15.62
August, 2003	\$15.97
September, 2003	\$17.11
October, 2003	\$17.48
November, 2003	\$18.06
December, 2003	\$18.26
January, 2004	\$18.32
February, 2004	\$18.95
March, 2004	\$18.75

Information Request DTE 1-10

Refer to the Marshall testimony at 7, line 7. If the stock issuance is approved, what does the Company anticipate the “more favorable debt-to-equity ratio” will be?

Response

A \$130 million common stock issuance will improve the Company’s debt-to-equity ratio by approximately 3.52 percent as shown below:

<u>Capitalization</u>	<u>Actual December 31, 2003</u>	<u>Common Stock Issuance</u>	<u>Pro forma December 31, 2003</u>
Long-Term Debt	\$ 2,265,137	\$ (130,000)	\$ 2,135,137
Short-Term Debt	252,000	-	252,000
Preferred Stock	230,000	-	230,000
Common Equity	946,502	130,000	1,076,502
	<u>\$ 3,693,639</u>	<u>\$ -</u>	<u>\$ 3,693,639</u>

Capitalization Ratios

Long-Term Debt	61.33%	57.81%
Short-Term Debt	6.82%	6.82%
Preferred Stock	6.23%	6.23%
Common Equity	25.62%	29.14%
	<u>100.00%</u>	<u>100.00%</u>

Information Request DTE 1-12

Refer to the Marshall testimony at 12. Please provide the anticipated period of time expected between the proposed common stock issuance and the redemption of \$130 million in long-term debt.

Response

The Company expects it will redeem approximately \$130 million of long-term debt with proceeds from the common stock issuance immediately following the issuance.

Information Request DTE 1-13

Refer to Exhibits SU-4 and SU-5. Please reconcile the total long-term debt of \$2,406,530 shown on Exhibit SU-4 with the \$2,004,408 long-term debt total shown on Exhibit SU-5, at 5.

Response

In reviewing Exhibit SU-4 and SU-5 to respond to this information request, the Company discovered two errors. First, the Company discovered that \$125 million of Mandatory Convertible Securities was included both as "Long Term Debt" and as a separate line item, and therefore, was double counted in the net plant test. Second, the Company discovered that the apportionment of capitalization associated with "Goodwill" and "Unregulated Property included in Property, Plant and Equipment" were incorrect due to spreadsheet errors. The Company has corrected for these errors and has attached REVISED Exhibits SU-3 and SU-4 for the Department's information (see Attachments DTE-1-13(a) and (b), respectively).

The long-term debt shown on the REVISED Exhibit SU-4 is \$2,257,404. The reconciliation of the long-term debt total shown on Exhibit SU-5, at 5 (\$2,004,408) and the long-term debt shown on the REVISED Exhibit SU-4 (\$2,257,404) is shown below:

	<u>Thousands of Dollars</u>
Long-Term Debt SU-5 at 5	\$ 2,004,408
Add:	
Preferred Securities	230,000
Revolving Credit Facility	400,000
Long-Term Debt – Current Portion	210,729
Less:	
Apportionment of Goodwill	(466,108)
Elimination of Unregulated Property	( 10,538)
Repayment of Debt with Proceeds from Sale of Common Stock	<u>(111,087)</u>
Long-Term Debt Exhibit SU-4	<u>\$ 2,257,404</u>

# Southern Union Company

Net Asset Test  
(Exh. J-3)

	As of 31-Dec-03	Adjustments (in 000's)	Adj Net Plant 31-Dec-03
<b>Capitalization</b>			
Common stockholders' equity			
Common stock, \$1 par	73,182		73,182
Premium on capital stock	903,757	(176,813) (B)	722,947
		(3,997) (A)	
Less: treasury stock, at cost	(10,467)		(10,467)
Less: common stock held in trust	(5,657)		(5,657)
Deferred compensation plans	-		-
Accumulated other comprehensive income	(61,880)		(61,880)
Retained earnings	47,567	(47,567) (C)	-
Total common stockholders' equity	946,502	(228,377)	718,125
<b>Mandatory Convertible Securities</b>	125,000		125,000
<b>Long-term debt (including Preferred Stock)</b>	2,109,408 N.1	(466,108) (B)	1,632,762
		(10,538) (A)	
Long-term debt - Current Portion	260,729		260,729
Total Long-term debt	2,370,137	(476,646)	1,893,491
<b>Total capitalization</b>	3,441,639	(705,023)	2,736,616
<b>Property plant and equipment</b>			
Plant in service	3,763,036	(16,909) (A)	3,746,127
Construction work in progress	119,132	(119,132) (D)	-
Subtotal	3,882,168	(136,041)	3,746,127
Less: accumulated depreciation	(698,858)	2,374 (A)	(696,484)
Net property, plant and equipment	3,183,310	(133,667)	3,049,643
Plus: inventory	230,854	(8,173) (E)	222,681
<b>Total assets to be funded</b>	3,414,164	(141,840)	3,272,324
<b>Excess of net utility plant and other assets over total capitalization after adjustments</b>			535,708
Net Goodwill on Books	642,921	(642,921) (B)	

**Note 1:** This amount includes \$230 million of preferred securities

- (A) Elimination of unregulated property from plant and capitalization.  
 (B) Apportionment of Goodwill between debt and equity.  
 (C) Elimination of retained earnings from net plant test.  
 (D) Elimination of CWIP from net plant test.  
 (E) Elimination of unregulated inventories from net plant test.

## Southern Union Company

## Post-Issuance Comparison of Net-Utility Plant (adjusted) to Total Capitalization (adjusted)

(Exhibit SU-4)

	Post-Issuance (in \$000's)	Total (in 000's)
<b>Property Plant and Equipment</b>		
Net-Utility Plant In Service	3,746,127	
Less: Accumulated Depreciation	(696,484)	
Subtotal	3,049,643	
Plus: Inventory Held By Regulated Utilities	222,681	
<b>Total Property Plant and Equipment</b>	<b>3,272,324</b>	<b>\$ 3,272,324</b>
<b>Capitalization</b>		
Common stockholders' equity		
Common stock, \$1 par	79,682 (a)	
Premium on capital stock	846,447 (a)	
Less: treasury stock, at cost	(10,467)	
Less: common stock held in trust	(5,657)	
Accumulated other comprehensive income	(61,880)	
Deferred compensation plans	-	
Total Common Stockholders' Equity	848,125	
Mandatory Convertible Securities	125,000	
Long-term Debt and Capital Lease Obligation	1,521,675 (b)	
Long-term Revolving Credit Facility	400,000 (c)	
Long-term Debt - Current Portion	210,729 (b) (c)	
Total Long-term Debt	2,257,404	
<b>Total Capitalization</b>	<b>3,105,529</b>	<b>\$ 3,105,529</b>
<b>Net-Utility Plant in Excess of Total Capitalization</b>		<b>166,795</b>

(a) Includes common stock issuance of \$130 million (6.5 million shares of common stock at \$20 per share)

(b) Includes repayment of \$111.1 million of Long-Term Debt and \$18.9 million of Current Portion of LTD with proceeds from sale of Common Stock.

(c) Assumes the \$400 million revolving credit facility is fully drawn at the time of issuance and \$31.9 million of borrowings under the facility were used to repay debt.

Information Request DTE 1-14

Refer to Exhibit SU-4. Has the Company determined which debt issues will be included in the anticipated repayment of \$130 million of long-term debt that would result from approval of the Company's petition? If so, please provide the debt series and amounts of each debt series expected to be redeemed.

Response

The Company expects to use proceeds from the common stock issuance to redeem its Term Loan due August 2005, and/or to repay borrowings outstanding under its revolving credit facility. As of March 31, 2004, borrowings outstanding under the Term Loan totaled \$136.1 million.



Information Request DTE 1-15

Refer to Exhibit SU-5, at 15. Please explain the entry of \$338,000 associated with "Capital lease and other due 2004 to 2007."

Response

The \$338,000 balance shown under the heading "Capital Lease and Other due 2004 to 2007" represents the principal amount owed for certain vehicles and office equipment that belong to the Company's New England Gas Company operating division. The entire balance at December 31, 2003 is composed of the principal amounts owed under leases that do not qualify for operating lease treatment under Generally Accepted Accounting Principles.

Information Request DTE 1-16

Is the Company required to comply with the competitive bidding requirements of G.L. c. 164, §§ 15 and 15A concerning the proposed debt issuance? If so, is the Company seeking an exemption from the requirements?

Response

G.L. c. 164 § 15 ("Section 15") is not applicable to the Company's request for approval in this proceeding to enter into a Revolving Credit Agreement and to issue stock because, in neither instance is the Company issuing "bonds, debentures, notes or other evidences of indebtedness" payable at periods of more than five years. The Company's Revolving Credit Agreement is an agreement to borrow money, but does not involve the Company selling, offering for sale or issuing debt, as is contemplated by the provisions of Section 15. The Department has approved revolving credit agreements in the past that did not subject to competitive bidding. See Boston Gas Company, D.P.U. 88-189. Even if the Department were to categorize the Revolving Credit Agreement as an "evidence of indebtedness" for purposes of interpreting Section 15, the agreement will be for a term of three to five years. Accordingly, any borrowing undertaken by the Company pursuant to the agreement will be payable within five years and thus, Section 15 would not be applicable. The issuance of stock is explicitly excluded from this section.

Similarly, G.L. c. 164, § 15A is also not applicable to the Company's request for approval in this proceeding because the Revolving Credit Agreement does not have a par value of any kind, as is contemplated by the provisions of the section.

Information Request DTE 2-1

Refer to Exhibit SU-3. Please explain the reductions of \$1,810,000 to premium and \$2,748,000 to long-term debt for "Elimination of unregulated property from plant and capitalization." Provide the work papers showing the mathematical derivation of these entries.

Response

The purpose of Adjustment A on Exhibit SU-3 is to remove unregulated property included in Plant in Service and Accumulated Depreciation for financial reporting purposes from both property plant and equipment and capitalization for purposes of calculating the Department's net plant test. However, as indicated in the response to Information Request DTE 1-13, the reductions of \$1,810,000 to premium on capital stock and \$2,748,000 to long-term debt are incorrect due to an error in a spreadsheet formula. The total net unregulated property of \$14,535,000 should have been apportioned to premium on capital stock and long-term debt based on the percentage of equity and debt to total capitalization, as required by Department precedent. Thus, the correct adjustments, which are reflected on the REVISED Exhibits SU-3 and SU-4 provided in response to Information Request DTE 1-13, are calculated as follows:

	<u>Total Capitalization</u>		<u>Net Unregulated Property Apportionment</u>	
	(Dollars in Thousands)			
Common Stockholders' Equity	\$ 946,502	27.50%	\$ 3,997	27.50%
Long-Term Debt	<u>2,495,137</u>	<u>72.50%</u>	<u>10,538</u>	<u>72.50%</u>
	<u>\$ 3,441,639</u>	<u>100.00%</u>	<u>\$ 14,535</u>	<u>100.00%</u>

Information Request DTE 2-2

Refer to Exhibit SU-3. Please explain the nature of the securities that make up the "Mandatory Convertible Securities" line.

Response

The Mandatory Convertible Securities consist of 2,500,000 equity units issued on June 11, 2003, at a public offering price of \$50 per unit, resulting in net proceeds to the Company, after underwriting discounts and commissions, of \$48.50 per unit, or \$121.3 million in the aggregate. These securities were issued pursuant to the Department's approval in Southern Union Company, D.T.E. 03-3, which granted the Company authority to issue up to \$300 million in common stock and preferred securities.

Information Request DTE 2-3

Refer to Exhibit SU-3. The Company reports a goodwill balance as of December 31, 2003 of \$641,921,000. In Southern Union Company, D.T.E. 03-64 (2003), the Company's response to RR-DTE-1 at 1 also indicates a goodwill balance as of June 30, 2003 of \$641,921,000. Please explain why the goodwill balance remains unchanged over this period of time.

Response

Effective July 1, 2001, the Company adopted *Goodwill and Other Intangible Assets*, which was issued by the FASB in June 2001. In accordance with this Statement, the Company has ceased amortization of goodwill. Goodwill, which was previously classified on the Consolidated Balance Sheet as additional purchase cost assigned to utility plant and was amortized on a straight-line basis over forty years, is now subject to at least an annual assessment for impairment by applying a fair-value based test. Accordingly, this amount may remain the same from year to year.

Information Request DTE 2-4

Refer to Exhibit SU-3, as well as Southern Union Company, D.T.E. 03-64, at 10-11 (2003). In D.T.E. 03-64, the Department adjusted the Company's plant and capitalization accounts for capitalized leases. Please explain why the Company did not adjust its plant accounts for capitalized leases in this proceeding.

Response

The Company did not adjust its plant accounts in its filed exhibits for capital leases because the amount is de minimis, i.e., \$338,000, and will not change the outcome of the net plant test due to rounding. See Exh. SU-4, at 15.